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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Defense

Department Of Defense Food Service Program Needs Contracting And Management Improvements

Defense spends over $1 billion a year to buy, prepare, and serve food to the services. GAO looked at dining facilities at 17 military locations and found (1) contracting problems, (2) the basic daily food allowance fosters lax accountability and potential wasteful consumption, and (3) a need for greater control at the Pentagon. Defense accepts most of GAO's recommendations to improve its management of the program.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-205125

The Honorable Caspar W. Weinberger
The Secretary of Defense

Dear Mr. Secretary:

This report describes our review of the Department of Defense Food Service Program and the need for improvements in that program.

This report contains recommendations to you on pages 7, 17, and 23. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretaries of the Army, Navy, and Air Force.

Sincerely yours,

Donald J. Horan
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE
SECRETARY OF DEFENSE

DEPARTMENT OF DEFENSE FOOD SERVICE PROGRAM NEEDS CONTRACTING AND MANAGEMENT IMPROVEMENTS

D I G E S T

The Department of Defense (DOD) spends more than a billion dollars a year to buy, cook, and serve food and to clean up at about 2,400 dining facilities around the world. Just paying for the raw food accounts for about $700 million a year. Although they do not know exactly, DOD experts estimate that the rest of the costs associated with "putting the meal on the table" are much more.

Contractors play an important role in DOD's Food Service Program. In fiscal year 1979, the military services contracted out about $130 million, or about 36 percent, of the estimated $360 million spent on food service labor, supplies, and materials. The raw food, transportation, warehousing, energy, kitchens, and dining halls are all paid for by the Government and roughly account for the balance of the billion-dollar-a-year program. (See p. 1.)

In view of the magnitude of this program and the ever-rising food costs, GAO decided to look at how well the program is working by visiting Army, Navy, and Air Force dining facilities at 17 selected installations. (See p. 3.)

NEED FOR STRONGER MANAGEMENT CONTROL AND STANDARDIZED CONTRACTING

To maintain control of such an expensive, complex, and widely dispersed operation as food service, GAO expected DOD and the military services to have an effective common means of measuring contractor cost and performance and of comparing contracted operations between military services, between bases of the same service, and between dining facilities of the same base. They do not.

To do their job better, DOD and the military food service managers need the following kinds of management tools:

--A common unit of measure, such as the cost per meal, to make meaningful comparisons.

--A common contract instrument with standard statements of work, meal volume adjustment formulas, and measurable performance criteria.

--A uniform system of contract administration based on measurable performance standards.

Recommendation

GAO recommends that the Secretary of Defense fulfill these needs. (See pp. 7 and 8.)

VALID FOOD ALLOWANCES, ACCOUNTABILITY OVER FOOD STOCKS, AND CONTROLLED ACCESS TO DINING FACILITIES NEEDED

GAO also found indications that the food cost index, which is the basis for the budgetary control device known as the basic daily food allowance, may be higher than necessary to provide the specified daily quantities of meat and beverages. Too much generosity in this allowance and the "use it or lose it" mentality encourages lax food accountability and fosters waste and abuse. Furthermore, daily head counts of the number of people being fed multiplied by the allowance results in the funding available for the food service operations. GAO also confirmed earlier recurring DOD auditors' findings of problems in controlling head counts and of stopping unauthorized persons from eating free meals.

Recommendations

GAO recommends that the Secretary of Defense

--require the development of a new food cost index based on the actual items and costs of food served in military dining facilities,

--improve the internal controls over food inventories, and

--strengthen controls to prevent access to dining facilities by unauthorized persons. (See p. 17.)

TOP-LEVEL MANAGEMENT AND ACCOUNTING NEEDS STRENGTHENING

GAO found that the DOD Food Service Program had weak and ineffective top-level management and

direction. Because funds to run the program come from a variety of appropriations, the DOD accounting systems do not segregate and accumulate overall food service costs. As a result, total program costs that could answer the question, "What does it cost to put a meal on the table?", are not available. DOD recognized this problem over 10 years ago and still has not solved it.

Recommendation

GAO recommends that the Secretary of Defense provide adequate visibility and uniform management of food service functions. (See p. 23.)

AGENCY COMMENTS

DOD agrees that improvements can be made. It concurs with most of GAO's recommendations and has promised corrective actions. However, DOD believes it is essential that the initial value of a revised food cost index be equal to the value of the present food cost index. (See p. 17.) GAO believes that changing the composition of the present food cost index, but still keeping the monetary value of the old index, is neither logical nor appropriate for establishing a budgetary control device for food expenditures. (See p. 18.)

Contents

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Organization and management of DOD Food Service Program	1
	Objectives, scope, and methodology	2
2	DOD'S CONTRACTING FOR FOOD SERVICES NEEDS IMPROVEMENT AND STANDARDIZATION	6
	Conclusions	7
	Recommendations	7
	DOD comments and our evaluation	8
3	IMPROVEMENTS NEEDED IN DOD'S MANAGEMENT AND CONTROL OF SUBSISTENCE	9
	Monetary value of current ration may be higher than necessary and may permit waste and abuse	9
	DOD's proposed legislation to establish a uniform ration law needs to be revised	11
	Meal card and headcount procedures and controls need improvement	14
	Conclusions	16
	Recommendations	17
	DOD comments and our evaluation	17
4	DOD'S FOOD SERVICE PROGRAM LACKS EFFECTIVE TOP-LEVEL MANAGEMENT	19
	Stronger DOD food service management is needed	19
	DOD Food Service Program data should provide more visibility	20
	Conclusions	23
	Recommendations	23
	DOD comments and our evaluation	23
APPENDIX		
I	Greater uniformity needed to improve management of food service contracts	25
II	Improvements needed to assure satisfactory contractor performance	29
III	Improvements needed in estimating requirements and evaluating contractor capabilities	36

		Page
APPENDIX		
IV	DOD and military service efforts to study and standardize food service contracts	40
V	DOD food cost index	43
VI	Letter dated June 26, 1981, from the Principal Deputy Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics)	45
VII	Letter dated June 17, 1981, from the Deputy Director, Executive Office of the President, Office of Management and Budget	57

ABBREVIATIONS

BDFA	basic daily food allowance
DLA	Defense Logistics Agency
DOD	Department of Defense
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

It is the policy of the Department of Defense (DOD) to provide the highest quality and most cost effective food service to military personnel. This report discusses management of the DOD Food Service Program and especially management of food service contracts.

To feed enlisted personnel, the military services operate about 2,400 dining facilities worldwide. About 750,000 enlisted personnel are authorized to eat free in the dining facilities, and another 980,000 personnel, who receive a separate monetary food allowance, can pay cash to eat in the dining facilities. DOD procures food for dining facilities, but meal preparation, serving, and other aspects of the food program are provided by either in-house or contractor personnel.

Food service in DOD exceeds $1 billion a year. However, except for the cost of the food itself, DOD Food Service Program costs are not segregated and accumulated for management purposes. These costs are funded under various appropriations, such as Military Personnel, Operations and Maintenance, and Military Construction. In fiscal year 1979, the food costs alone were about $700 million. Yet, there are other costs associated with feeding military personnel. For example, in fiscal year 1979, labor, supplies, and materials cost about $360 million--$230 million with the Government and $130 million with contractors. Even these costs are by no means all inclusive.

ORGANIZATION AND MANAGEMENT OF DOD FOOD SERVICE PROGRAM

The Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) is responsible for administering the DOD Food Service Program, including providing policy guidance, direction, and procedures for its operation. The Assistant Secretary has provided general guidance. However, food service management, including contracts, has been left to the military services and primarily to local commanders under the policy and guidance of major commands.

Controls of food entitlements

Each enlisted person is entitled to either a daily ration of food or a monetary allowance. To provide this entitlement, DOD has established procedures for computing a basic daily food allowance (BDFA) by using a food cost index, which contains specified quantities of 53 food items. The monetary value is determined by multiplying the quantity of each food item in the cost index by the current Defense Personnel Support Center unit price. The costs of the items are summed and a percentage for condiments is added to obtain the BDFA. (See app. V.) Although Defense

Personnel Support Center price lists were used, the Navy centrally computed the BDFA quarterly, whereas the Army and Air Force individually computed the BDFA monthly. Each month military and contractor dining facilities managers are required to spend within specified tolerances of the allowances--Army, plus or minus 3 percent; Air Force, plus or minus 2 percent; Navy, plus or minus 1 percent; and Marine Corps, zero to minus 5 percent. The allowance is the BDFA value multiplied by the number of rations served.

To eat in dining facilities, personnel had to either pay an established meal rate or show both meal and military identification cards. Personnel with meal cards had to sign signature headcount sheets, which are used to obtain the number of daily rations served in a month. The headcounts yield the number of meals served, which are then converted into ration credits on the basis of 20 percent, 40 percent, and 40 percent of a ration for each person served breakfast, lunch, and dinner, respectively.

Contracts management

During fiscal year 1979, the Air Force contracted out about 53 percent, the Army about 36 percent, the Navy about 25 percent, and the Marine Corps about 1 percent of their estimated food service labor, supplies, and materials. Food and facilities were provided by the Government. Although there were differences in specific services included, food service contracts were generally classified as either full food service (preparation of Government-furnished food and dining facility attendant services) or dining facility attendant services. The Air Force and Army had both types of contracts; however, the Navy did not contract out for food preparation because of its ship-to-shore rotation requirements for cooks. With the exception of Navy contracts, which were awarded by Regional Procurement Offices, food service contracts were awarded and administered at the installation level.

OBJECTIVES, SCOPE, AND METHODOLOGY

Over the years, we have reviewed selected aspects of contracting out for military support services. Contracting out is accompanied by controversy as to whether the level or quality of contractor services will deteriorate over a period of time. In addition, DOD and service level audits, inspection reports, and studies have identified recurring problems with controls of subsistence and access to dining facilities. Moreover, in fiscal year 1980, the House Committee on Appropriations made budget reductions it attributed to poor food service management practices. We made this review to assess the effectiveness of DOD's and the military services' (1) management of food service contracts, (2) control of subsistence expenditures, inventories, and access to dining facilities, and (3) management of the Food Service Program.

We reviewed selected contracts totaling about $28 million that were effective during fiscal years 1978, 1979, and 1980 at

17 military installations. We focused on whether food service contracts were uniform and comparable within DOD; whether the system for assuring satisfactory contractor performance was adequate; whether Government meal estimates were accurate and Government evaluations of bids and proposals were adequate; and the extent of progress being made in developing more uniform food service contracts with measurable performance standards.

We reviewed DOD's and the military services' control of subsistence expenditures, food inventories, and access to dining facilities. For a 1-month period at 15 dining facilities on 13 military installations during 1979 and 1980, we compared the items, cost, and quantities of meat reportedly used to those used in the food cost index to compute the BDFA. The total meat allowance of $337,120 for the period reviewed (about 44 percent of the total allowance of $71,862) was for 226,947 reported rations. Also, we compared the allowances for the beverage group--coffee and cocoa--to planned expenditures in the Army and Air Force 1980 annual food plans and February 1980 actual expenditures at two Air Force dining facilities.

We reviewed and analyzed DOD and military service audit reports and dining facility records on the receipt and disposition of food for selected periods in 1979 and 1980. For selected 1-month periods, we analyzed the disposition of 233,744 pounds of meat valued at $332,015 which were issued by nine Air Force, four Army, and two Navy dining facilities with a reported 226,947 rations.

We coordinated our work with an ongoing Defense Audit Service review report, which identified significant weaknesses in the military services' meal card and headcount controls. To avoid duplication of audit effort, we limited our detailed review of meal card and headcount controls and data to four installations which were not visited by the Defense Audit Service. For the four installations, we reviewed and evaluated the validity of a sample of 587 signature entries for selected days in 1979.

We reviewed and analyzed records, manuals, reports, and correspondence on the organizational structure; the management responsibilities; the policies, standards, and procedures; the appropriation and funding process; and the requirements and systems for segregating, accumulating, and reporting cost and performance data on the DOD Food Service Program. We also reviewed DOD study reports and correspondence on the need for total program cost and centralized management of the DOD Food Service Program.

We reviewed records and interviewed officials involved in food service management and contracting at the locations listed below. The 17 individual installations were selected on a nationwide basis to be representative of Army, Navy, and Air Force installations and to include (1) various commands, (2) contracts for full food service and dining facility attendant service, (3) negotiated and competitively awarded contracts, (4) permanent

duty and training facilities, and (5) both large and small installations.

Department of Defense:

Office of the Assistant Secretary of Defense, Manpower, Reserve Affairs, and Logistics, Washington, D.C.

Air Force:

Headquarters Air Force Engineering and Services Center, Panama City, Florida
Beale Air Force Base, California
Kelly Air Force Base, Texas
Lackland Air Force Base, Texas
Mather Air Force Base, California
Maxwell/Gunter Air Force Bases, Alabama
McDill Air Force Base, Florida
Patrick Air Force Base, Florida

Army:

Office of the Deputy Chief of Staff for Logistics, Troop Support Division, Washington, D.C.
Troop Support Agency, Fort Lee, Virginia
Fort Benning, Georgia
Fort Eustis, Virginia
Fort Knox, Kentucky
Fort Leonard Wood, Missouri
Fort McClellan, Alabama
Redstone Arsenal, Alabama

Navy:

Food Service Systems Office, Washington, D.C.
Naval Air Station, Corpus Christi, Texas
Naval Air Station, Pensacola, Florida
Naval Station, Norfolk, Virginia
Naval Training Center, Orlando, Florida

Marine Corps:

Facilities and Services Division, Arlington, Virginia

Defense Logistics Agency:

Assistant Director, Plans, Programs, and Systems Alexandria, Virginia
Defense Personnel Support Center, Philadelphia, Pennsylvania

On May 11, 1981, we issued a draft of this report to DOD for comment. DOD appointed representatives from its office, as well as Army, Navy, Air Force, and Marine Corps offices, to comment on the report. We met with these representatives on May 29, 1981,

and their comments have been included under appropriate side captions in chapters 2, 3, and 4. The comments discussed at our meeting were transmitted with DOD's June 26, 1981, letter. (See app. VI.)

CHAPTER 2

DOD'S CONTRACTING FOR FOOD SERVICES NEEDS IMPROVEMENT AND STANDARDIZATION

The same basic tasks of cooking, serving, and cleaning are required in operating military dining facilities and generally the same group of contractors each year bid on and perform food services. Because these food service contracts do not contain adequate measurable performance criteria and are not standardized within and between the military services, it is difficult to determine if the level and quality of food services contracted and paid for are being received and that the prices paid are reasonable. Also, improvements are needed in estimating the number of meals to be served and in evaluating potential contractor performance capabilities.

--Common contract units of measure and services were not used for bids and proposals and for making payments to contractors. This impeded evaluations of contractor bids and proposals and precluded meaningful comparisons to determine the reasonableness of contract costs. In addition, meal volume adjustment formulas for adjusting contract costs for differences between estimated and actual meals served affected contract costs differently and, in many instances, were unrealistic. (See app. I.)

--The system for assuring satisfactory contractor performance lacks uniformity and is ineffective because contracts do not contain specific, measurable performance standards, tolerances allowed, and deduction rates for unacceptable performance; inspections and their frequency and documentation were inadequate; and inspectors were inadequately trained. As a result, some military installations paid for marginal or unacceptable performance; performed some of the contract work with military personnel; or terminated the contractor and reawarded the contract (a costly process). (See app. II.)

--Government meal estimates on which contractor bids and proposals were based were inaccurate; and inadequate Government evaluations of contractor bids and proposals resulted in the award of some contracts to contractors that could not meet contract requirements. (See app. III.)

--Although DOD has made some progress, a stronger, more coordinated DOD effort is needed to develop uniform food service contracts, including measurable performance standards. (See app. IV.)

CONCLUSIONS

All of DOD's food service operations have a common mission, to feed military personnel high quality food in a cost effective manner. In order to establish the management controls and oversight needed to evaluate cost effectiveness, the DOD manager needs a common means of measuring performance and comparing operations to constantly maintain or improve service and control or reduce cost. Specifically, managers in DOD and the military services need:

--A common unit of measure, such as the cost per meal, to make meaningful comparisons between the military services, installations and bases, and dining facilities.

--A common contract instrument, with standard statements of work, meal volume adjustment formulas, and measurable performance criteria so that valid comparisons can be made.

--A uniform system of contract administration based on measurable performance standards, adequately documented inspections, and equitable means of deducting for unacceptable performance.

We recognize that DOD and the military services are aware of some aspects of this need. Their efforts in the development and testing of improved contract methods are steps in the right direction. In view of the increasing pressure to increase contracting out for food services and in view of increasing pressure from contractor groups to standardize and define the requirements, we believe our recommendations will assist DOD and the military services in their efforts to bring about improvements.

RECOMMENDATIONS

To improve management control of food service contracting, we recommend that the Secretary of Defense take appropriate actions that will:

--Require that DOD's current efforts in developing and testing of improved food service contract methods provide

(1) uniform statements of work for full food service, dining facility attendant, and food preparation;

(2) common units of measure (preferably the meal);

(3) uniform meal volume adjustment formulas;

(4) measurable performance standards;

(5) inspection provisions requiring adequate documentation; and

(6) equitable deduction rates for unacceptable contractor performance.

--Provide for retaining adequately documented inspection records supporting contract payments long enough to enable contract administrators and auditors to verify that the Government received the services paid for.

--Reemphasize the need to consider recent past experience as well as anticipated major personnel changes in preparing the estimates of the number of meals to minimize unrealistic contract bids and proposals, unprogrammed cost increases, and contractor claims and disputes.

--Remind contracting officers that comprehensive preaward surveys of potential food service contractors should be made in sufficient detail to reveal potential problem areas and to identify marginal or unsatisfactory past contractor performance.

DOD COMMENTS AND OUR EVALUATION

DOD concurred, in general, with all of the above recommendations and indicated that corrective actions have been initiated. However, DOD said that the meal may not always be the appropriate contract unit of measure because other factors may affect the contractor's costs. While we recognize that conditions such as size and age of the facility and equipment, number of serving lines, and number of people being served will vary and affect contractor costs, we believe that prospective contractors will consider these factors in proposing contract prices per meal.

CHAPTER 3

IMPROVEMENTS NEEDED IN DOD'S MANAGEMENT AND CONTROL OF SUBSISTENCE

Each enlisted person is entitled to receive either an allowance or a daily food ration. To meet this obligation, military departments operate dining facilities. In fiscal year 1979, military dining facilities spent about $700 million for food. We believe DOD could substantially reduce its food costs by improving the controls over food expenditures, food inventories, and access to military dining facilities.

--While we did not evaluate the overall reasonableness of the entire food allowance, the food cost index now used may allow much more meats and beverages annually than necessary. Excessive food allowances may encourage or permit lax accountability.

--DOD's proposed legislation for establishing a uniform ration would base the components and quantities of the ration on the monetary value of the current ration, which may be higher than necessary; would inadequately provide for annual decreases in the ration value due to major composition changes; and would not establish a minimum period for review of the ration.

--The meal card and headcount controls used to limit access to, and compute ration credits for dining facilities were inadequate and extremely vulnerable to waste and abuse.

MONETARY VALUE OF CURRENT RATION MAY BE HIGHER THAN NECESSARY AND MAY PERMIT WASTE AND ABUSE

Our work at selected Army, Navy, and Air Force installations indicated that the monetary allowance for meat, which represented about 44 percent of the total current monetary allowance, was higher than necessary to provide the 13.4 ounces in the food cost index. (See app. V.) Considering the average cost of meat actually used by dining facilities and eliminating excessive issues of meat, we believe that DOD could substantially reduce its current annual food expenditures. Also, our review of Army and Air Force annual food plans and two Air Force dining facilities indicated that the beverage allowance may be much more than needed.

Dining facilities issued more meat than required

Our review of the meals actually served for a 1-month period at 15 dining facilities on 13 military installations during 1979 and 1980 showed that the meat items, costs, and quantities used in the food cost index to compute the daily monetary allowance

varied significantly from those actually experienced by the dining facilities. The food cost index contained only 10 meat items compared to about 170 meat items available for use by dining facilities. The eight beef and pork items in the index included some of the most expensive items in their meat groups. Also, the quantitative weights assigned specific meat items in the food cost index favored the more expensive meats. As a result, the weighted average cost per pound of meat in the food cost index was $1.77, or about 25 percent higher than the $1.42 per pound for meat used by dining facilities.

The use of less expensive meat permitted the managers of the 15 dining facilities to use the equivalent of 16.5 ounces of meat per weighted ration, or about 23 percent more than provided for in the food cost index. As a result, for these 15 dining facilities, the total meat allowance of $337,120 was about $65,815, or 20 percent, more than needed to provide the 13.4 ounces of meat in the food cost index.

At 13 of the 15 dining facilities, the equivalent of 604,021 standard DOD meat portions were reportedly prepared for 460,442 persons, an average of 1.3 portions per person. Disposition of these excessive issues of meat was not documented. The Army and Air Force do not attempt to reconcile portions prepared to persons served. As a result, the meat may or may not have been consumed by persons reportedly served. We found some evidence that (1) food was not always consumed as reported, (2) unauthorized persons were being fed free, and (3) food was being wasted.

Since dining facility managers are expected to spend within specified tolerances of their allowances, a realistic allowance would be a valuable budgetary and control device. However, based on actual experience, the current allowance for meat appears excessive. For example, dining facility managers issued 24 percent more meat than provided in the allowance and still did not spend their allowance for meat. We believe excessive allowances may permit or even encourage lax accountability, waste, and abuse. Military departments have been aware of weaknesses in the accountability and control of food for over 10 years. Our review and recent DOD and Navy audits disclosed that military dining facilities still do not effectively control the receipt and disposition of food. Specifically:

--Army dining facilities are not required to maintain perpetual inventory records, and cooks' worksheets were not used effectively to control the receipt and disposition of food. Our analysis of meat quantities prepared by four Army dining facilities during selected 1-month periods disclosed that of 156,942 total meat portions, 27,136 (about 21 percent) exceeded requirements and were unaccounted for.

--Air Force dining facilities did not always adequately account for food inventories and food issued from their storerooms for preparation and serving. Our review of selected 1-month food issues by nine dining facilities showed that, of 447,079 portions of meat issued, 116,443 (about 35 percent) exceeded requirements and were unaccounted for. Even though cooks' worksheets are supposed to show food items, quantities, portions, recipes, and leftovers and their disposition, the Air Force does not consider them to be accountable documents.

--Navy dining facilities did not adequately account for food after it was issued to cooks for preparation. Meat issues at the Navy installations we reviewed exceeded requirements by about 18 percent. For example, at the Norfolk Naval Station on September 18, 1979, 1,927 pounds of meat were issued, about 51 percent more meat than was recorded as prepared and about twice as much as was needed to serve each person the required 13.4 ounces. Also, at Norfolk Naval Station, 1,937 pounds of grill steak, steamship round of beef, and peeled shrimp, valued at $6,305, were expensed but not used in September 1979 to avoid returning the part of the allowance not needed. Similarly, at the Naval Training Center in Florida, we noted that allegations of misuse led to the discovery by Navy auditors that as much as $465,000 in meat in fiscal year 1978 was unaccounted for.

Dining facilities spend less for beverages than allowed

Our review at two Air Force dining facilities indicated that actual beverage expenditures are much less than allowed, and that the specific items and quantities being used by these facilities varied appreciably from those listed in the food cost index. The beverage group in the food cost index--coffee and cocoa--represents about 8 percent of the total allowance. Yet, the 1980 Army and Air Force annual food plans indicate that only about 3 percent of projected food expenditures will be for beverages. In February 1980 these two Air Force facilities spent $4,149, or only about 27 percent of their $15,105 allowance for beverages. During February these two facilities spent about 3 percent of their total allowances on beverages, which is consistent with 1980 annual food plans. Based on the Army and Air Force annual food plans, the annual DOD beverage allowances could provide much more annually than necessary for the required amounts of beverages.

DOD'S PROPOSED LEGISLATION TO ESTABLISH A UNIFORM RATION LAW NEEDS TO BE REVISED

DOD has proposed legislation to amend title 10 of the United States Code to establish a uniform, nutritionally

adequate, consumer-acceptable ration for enlisted personnel. We agree that a uniform ration law is needed. Food types and quantities now used by military dining facilities vary significantly from the current Navy ration law, which was last changed in 1933. Since that time, changes have taken place in consumer preferences, working and living conditions, food preservation, and nutritional standards. The proposed legislation would give the Secretary of Defense more flexibility in prescribing and changing the components and quantities of the ration without requiring congressional action. In our October 28, 1980, letter responding to a request from the Chairman, House Committee on Armed Services, on House bill 6097, we commented that DOD's proposed legislation should be revised for the following reasons:

--The monetary value of the current ration on which the components and quantities of the new ration would be based may provide a value higher than necessary for a nutritionally adequate, consumer-acceptable ration and thus may permit waste and abuse.

--Major actions or events requiring changes in the components and quantities of the ration may result in decreases in the monetary value of the ration that exceed the 2 percent annually provided for in the proposed legislation.

--The proposed legislation does not establish specific periods for review of the ration.

Changes needed to assure components and quantities of ration are based on supportable requirements

Under section 2492(a) of DOD's proposed legislation, the Secretary of Defense is to prescribe the components and quantities of the ration using the monetary value of the current ration as a baseline. We believe the phrase, "considering nutritional requirements, customer preferences, food utilization patterns, and economic factors," should be added to the end of the first sentence. Also, the second sentence of section 2492(a) should be revised by striking out "be equal to" and inserting "not exceed."

These changes would leave intact the flexibility needed by the Secretary of Defense in prescribing and changing components and quantities and would also establish the monetary value of the current ration as a ceiling for congressional oversight purposes. However, our proposed revision would make the Secretary responsible for considering nutritional requirements, actual food use patterns, and economic considerations in identifying and prescribing the components and quantities of the ration instead of allowing the Secretary to merely "back into" a monetary value based on the current food cost index, which has apparent weaknesses.

As previously stated, these changes are needed because the monetary value of the current ration on which components and quantities would be based may provide a value higher than necessary for a nutritionally adequate, consumer-acceptable ration and thus may permit waste and abuse. For example, the food cost index used to compute the monetary value of the current ration may allow substantially more than necessary to provide required amounts of meat and beverages. (See pp. 9 through 11.)

Changes needed to remove the 2-percent floor on annual composition changes

The second sentence of section 2492(b) of DOD's proposed legislation states, "Increases or decreases in the monetary value of the ration that are caused by changes in the composition of the ration shall not exceed 2 per centum annually." We believe the words "or decreases" should be deleted and recommend adding a third sentence: "Decreases in the monetary value of the ration are permitted and encouraged where the nutritional adequacy and consumer acceptability of the food is not degraded."

These changes would leave intact the 2-percent ceiling for composition changes in the ration. However, by eliminating the 2 percent floor on composition changes, the changes would also authorize and encourage the Secretary of Defense and his staff to consider the full cost benefits of composition changes as long as nutritionally adequate and consumer-acceptable food was provided.

Under certain circumstances, such as scarcity of items used in the ration, changes in consumer preferences, and advances in food technology, we believe composition changes could occur which would reduce the monetary value of the ration by more than 2 percent annually. An example is DOD's actions to reduce beef consumption by 25 percent in response to the President's April 1979 request for action to reduce inflation. DOD directed the military departments to reduce beef consumption by 11 percent by substituting soy-extended ground beef for pure ground beef and 14 percent by substituting alternative items. The substitution of soy-extended ground beef reduced the monetary value of the Navy's daily allowance for September 1979 by about 3 percent. While the items and quantities in the food cost index were not changed to reflect the items substituted, the potential savings in September 1979 due to substitution at the Army's Fort Knox, Kentucky, installation was about $14,300, or 1.7 percent of the installation's monetary allowance.

Changes needed to establish a minimum period for review of ration composition

The first sentence of section 2492(b) of DOD's proposed legislation requires the Secretary of Defense to periodically

review the ration to insure that it reflects changes in food service technology, nutritional knowledge, the requirements of the Armed Forces, and the food preferences of the enlisted personnel. We recommend inserting the phrase, "or at least annually" after the word "periodically." This change would provide a minimum period for review that should coincide with the annual determination of whether composition changes increased the monetary value of the ration by more than 2 percent.

MEAL CARD AND HEADCOUNT PROCEDURES AND CONTROLS NEED IMPROVEMENT

In addition to inadequate controls of food expenditures and inventories, controls of meal cards and headcounts were also inadequate. Military departments have been aware of these control problems since 1970. In May 1980 the Defense Audit Service reported that weaknesses in meal card and headcount controls and food accountability made the food program extremely vulnerable to waste and abuse and estimated potential losses could be more than $100 million annually. The Defense Audit Service recommended that DOD establish a computer-oriented food accountability and control system using plastic cards, cash registers, and item pricing. Further, the report pointed out that the recommendation would be less costly to implement when the services start using a plastic military identification card with a magnetic strip as directed in the DOD Logistics and Manpower Program for fiscal years 1982-86. The Army and Navy indicated positive actions to establish better controls; however, the Air Force felt its system was sufficiently controlled. Our review of headcount procedures, observations of headcount taking, and analysis of headcount data at a limited number of installations not visited by the Defense Audit Service substantiated their reported weaknesses in controls.

Defense Audit Service review

The Defense Audit Service reported that of the 37 audit and inspections reports issued on 65 installations between 1976 and 1979, 27 identified inadequate meal card controls and 28 identified inadequate headcount controls. The following examples of Defense Audit Service findings, coupled with our review at other locations, show that these weaknesses have not been corrected:

--Meal card logbooks were not adequately kept and unissued meal cards were not secured. Of 500 supposedly current meal cards on one unit's register, 100 had been reported to the unit, but not the dining facility, as lost or stolen, and another 188 had been assigned to persons who had changed to a monetary allowance status, had transferred, or had been discharged. Only the Air Force required blank meal cards to be preserialized and controlled. During the review, the auditors obtained 200 Navy and 11 Army Reserve blank meal cards simply by having them picked up by personnel not authorized to

requisition and issue the cards. To illustrate the importance of securing and accounting for meal cards, the Defense Audit Service estimated that if five people gained unauthorized access to each meal in each military dining facility, the cost to DOD would be almost $6 million a year.

--As much as 17 percent of the headcount data reviewed was questionable. Personnel assigned to headcount duty seldom performed the required task of checking both military identification and meal cards, and verifying that the number and name put on the signature sheets were the same. It appeared impossible for headcount personnel to make complete checks except during slow periods. To illustrate, a sample of 1,448 from a total of 40,348 signature sheet entries at seven dining facilities disclosed that 23 percent were questionable. Although 7 percent were for entries with illegible signatures or numbers which could not be verified, 16 percent were for cards recorded as issued to different individuals, not assigned for use, for individuals not on unit rosters, for personnel drawing monetary allowances, etc.

--Weaknesses in controlling special feeding arrangements often resulted in abuse of privileges by individuals and excessive allowance credits to dining facilities. For example, training unit strengths, instead of actual feedings, were sometimes reported for headcount purposes. For example, inflated headcounts at one reservist dining facility in July 1979 increased allowance credits from 11,850 to 17,000, about 30 percent. These unearned allowance credits disguised unaccountable food losses of $13,692 to $18,484, or 20 to 27 percent. In addition, significant numbers of persons were signing for more than one meal during a meal period.

GAO review

Because of the Defense Audit Service review, mentioned above, we limited our detailed review of meal card and headcount controls and data to four installations not visited by the Defense Audit Service. (See p. 3.) Our review disclosed evidence that meal cards were not adequately controlled and that verification of the eligibility of persons admitted to dining facilities was not adequate. Numerous entries contained illegible names or meal card numbers or were for meal cards shown as inactive, destroyed, lost, stolen, or reassigned. The following paragraphs describe examples of our findings at the four installations.

At Corpus Christi Naval Air Station, blank meal cards were not serially numbered and secured and personnel did not sign for them. We observed that only about 25 percent of the persons admitted to the dining facility showed meal cards and those

shown were not closely examined by headcounters. In addition, the physical layout of the headcount taking area was inadequate for observing whether signature entries were accurate and legible. Of our sample of 46 signature entries on October 1 and 14, 1979, 20 percent were illegible, and another 7 percent of the names signed differed from the name assigned to the meal card. If about 7 percent of those signing for meals in fiscal year 1979 were not entitled to free meals, the dining facility may have incurred unnecessary food costs of about $24,000. Although the station audit board periodically reviews the accuracy of headcount data, these reviews are not always effective. For example, one board member told us that in selecting a sample of entries for verification, he excluded illegible names and names of persons he did not recognize.

At Redstone Arsenal, inexperienced transient military personnel were assigned as headcount takers. Of 99 signature sheet entries for July 6 and 7, 1979, 42 percent were illegible and 19 percent were not valid. Fiscal year 1979 food costs at Redstone totaled about $670,000.

Our review of 269 signature entries at Fort Knox for November 4 through 10, 1979, disclosed that either the signature or card number for many of the entries were illegible. Also, 11 meals were obtained using invalid cards--five of the signatures were not those to whom the meal cards were issued, five supposedly inactive meal cards were used, and one meal card number was not shown as issued.

At Kelly Air Force Base, no individual was designated to make periodic checks of headcount procedures as required by Air Force regulations. Of 173 signature sheet entries at two dining facilities on August 6 and November 20, 1979, about 5 percent of the entries had illegible signatures or meal card numbers, preventing verification. An additional 7.5 percent had either invalid meal card numbers or the person using the meal card was not the person listed on meal card registers.

CONCLUSIONS

The military departments spend about $700 million annually for the food to be consumed at military dining facilities. We believe food costs, food inventories, and access to military dining facilities are not adequately controlled. The food cost index used to compute the monetary value of the current basic daily food allowance may be higher than required to provide specified daily quantities of meat and beverages. Excessive food allowances may encourage lax food accountability and permit waste and abuse. In addition, the meal card and headcount controls used to limit access to and compute ration credits for dining facilities are vulnerable to waste and abuse.

RECOMMENDATIONS

To improve budgetary control of food costs, we recommend that the Secretary of Defense require the development of a food cost index whch is based on the actual items and costs of food used by military dining facilities. This would mean not starting with the value of the old ration, but developing a new cost index based on the food that is actually served, considering nutritional requirements, customer preferences, food utilization patterns, and economic factors.

We also recommend that the Secretary of Defense take actions to improve the internal control over food inventories and only allow access to dining facilities by authorized people.

DOD COMMENTS AND OUR EVALUATION

In commenting on our findings, DOD concurred, in general, with all but one of the above recommendations and has initiated or planned corrective actions. (See app. VI.) DOD expressed the view that our report would encourage all military services to make improvements in the management and control of subsistence.

DOD does not concur, however, with our idea that instead of starting with the value of the old ration, DOD use current supportable data that reflects present-day nutritional requirements, customer preferences, food utilization patterns, and economic factors. DOD deems it essential that the initial value of the revised food cost index be equal to the value of the present food cost index. It stated that the food items and quantities used in the present food cost index differ from the food actually served in military dining facilities because the index is designed to reflect, as closely as possible, the items and quantities stipulated in the 1933 Navy Ration Law. This law is woefully outdated because of changes in food technology, eating habits, and the changing ratio of men and women in the military.

DOD acknowledges that the composition of the present food cost index is not representative of the actual food items and quantities used in military dining facilities and that the present food cost index may provide excessive allowances for some items and categories of food.

DOD cited a 1974 U.S. Army Natick Research and Development Command study which purported to find DOD's level of feeding to be marginally lower (about 5 percent) than the food service systems of a sample of five civilian organizations.

We were also aware of the Natick study and had reviewed it during our audit. The Natick study used a police academy, professional football team, State university, merchant marine ship, and an offshore oil rig crew as its comparison sample. None of the civilian organizations, except the State university, are

representative of normal military feeding operations and would be considered special feeding operations. The State university is comparable in age group and eating habits; however, it may not be comparable in the number of men and women being fed. Furthermore, the total Natick sample covered 576,804 feeding transactions; of this number, 555,352 (about 96 percent) were at the State university. The State university data indicates that its level of feeding was about 11 percent less than DOD. It is the other 4 percent of transactions, which are special feeding operations, that make it appear that DOD is feeding at a level 5 percent less than civilian operations. On an overall basis, DOD's level of feeding was higher than that of the State university, policy academy, and merchant vessel. It was only lower than the professional football team and oil rig crew. On an item basis for meat category only, the State university was feeding 13.41 ounces. This is the same quantity included in the present DOD food cost index.

We cannot agree with DOD's use of the 1974 Natick study to support a position that it is feeding at a lower level than civilian organizations and that this is reason for deeming it essential that the initial value of the revised food cost index be equal to the value of the present food cost index.

We do not believe it is reasonable to continue with the value of a food cost index that is not based on a direct correlation to what is actually being used to feed the troops. Our audit and an Army audit suggest that the monetary value of the current ration on which components and quantities would be based may provide a value higher than necessary for a nutritionally adequate, consumer-acceptable ration and thus may permit waste and abuse. In our opinion, the DOD position of changing the composition of the food cost index, but still keeping the monetary value of the old index, is neither a logical nor appropriate method for establishing a budgetary control device used to control food expenditures of about $700 million annually.

CHAPTER 4

DOD'S FOOD SERVICE PROGRAM LACKS EFFECTIVE TOP-LEVEL MANAGEMENT

The DOD Food Service Program lacks effective top-level management. There is adequate program visibility at the DOD and military departmental levels. The DOD Food Service Program is funded by the Military Personnel, Operations and Maintenance, and Military Construction Appropriations. As a result, the military services' accounting systems do not segregate and accumulate overall food service costs. Therefore, total program costs, costs per meal, and daily cost per person are not available for management purposes. The present reporting systems do routinely provide cost data on raw food, but this is probably less than half of DOD's total food service costs. Food service management is left primarily to the military services and, in essence, to their installation commanders under the guidance and direction of their major commands. This has created a lack of program uniformity, which precludes meaningful management comparisons. Specifically:

--Except for some common standards on food and control of food expenditures, each military service runs its own program, creating a lack of program uniformity and precluding meaningful comparisons.

--DOD Food Service Program cost data are limited primarily to food costs and are not adequate for management analysis and control purposes.

--Similar to the action taken for DOD family housing in the mid-1960s, a separate appropriation may be needed to provide better program visibility and to improve food service management.

STRONGER DOD FOOD SERVICE MANAGEMENT IS NEEDED

The DOD Food Service Program lacks strong top-level management. The Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) is responsible for providing overall policy and guidance for the program. Although the Assistant Secretary has provided general guidance and procedures, he has essentially allowed each military service to separately manage its food service program. As a result, there is a general lack of uniformity in the DOD Food Service Program which precludes meaningful comparisons within and between the military services. Also, the absence of strong centralized management has allowed program deficiencies to go unresolved by the military services.

The Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) has set out general policies and

procedures for the DOD Food Service Program in DOD Directive 1338.10 and DOD Manual 1338.10M. The Assistant Secretary has also established various boards and committees, with participating members from the military services, for formulating food program policy and practices. The DOD Food Service Program's guidance and direction to military services have been limited primarily to prescribing (1) food items, (2) daily food allowances, (3) menu and recipe standards, and (4) procedures for counting persons served meals, and to reporting on food cost and allowances, persons served, and the absentee rate.

Except for general DOD guidance, the military services separately set general policy and procedures but leave food service operations and contracting to ship and installation commanders under separate guidance and direction from their major operational commands. However, Navy Regional Procurement Offices award food service contracts. We believe the absence of strong top-level management at the DOD level has resulted in major program management deficiencies being unresolved by the military services and a general lack of uniformity within the DOD Food Service Program, which precludes meaningful comparisons for management analysis and control purposes.

DOD FOOD SERVICE PROGRAM DATA SHOULD PROVIDE MORE VISIBILITY

Although required by DOD Directive 1338.10, a uniform management information system for the DOD Food Service Program has not been established. While DOD's present reporting system is designed to assist in monitoring raw food and cost allowances, it is not designed to account for other food service costs. Thus, overall program costs are not accumulated and reported to DOD. In addition, actual contract costs and performance data are not routinely reported to DOD and military departments for management analysis or for use in the award of subsequent food service contracts.

Total program cost data are needed for management analysis and control purposes

Although the need for total DOD Food Service Program cost data has been recognized at the DOD level for over 10 years, a uniform cost accounting system for the DOD food service function has not been established. As a result, adequate data are not available for setting cash meal rates and for meaningful economic evaluations of feeding policies, systems, and methods.

The only food service cost data routinely reported to the Office of the Secretary of Defense by the military services was raw food costs. Each service reported quarterly data on food allowances, food expenditures, daily rations fed, and the absentee rate. Other food service costs were not separately identified. The military services cost accounting systems

accumulate costs the same way funds are appropriated and do not segregate and accumulate the total costs for food service functions.

In the early 1970s, the Commission on Government Procurement reported that there were no current statistics on what it cost DOD to put a meal on the table. In addition, study reports for DOD in 1966, 1969, and 1974 recommended that the military services accumulate the total costs of food service functions. The 1974 report stated, among other things, that total food program costs were needed for more accurate determination and justification of program requirements; meaningful economic evaluation of food service operations; making tradeoffs between system elements, such as food and labor costs; making comparative analyses between Government- and contractor-provided products and services; and justifying innovations such as convenience foods.

Based in part on the DOD cost study reports, the Assistant Secretaries of Defense, more than 10 years ago, expressed a need for the total cost of food service operations. In October 1967 the DOD Comptroller told the military services that a total food program was needed to evaluate feeding policies, systems, and methods and to set prices for meals so that food and operating costs can be recovered. In September 1969 the Deputy Assistant Secretary of Defense (Supply and Services) indicated that the system of accumulating food cost only was insufficient for management purposes and requested that the DOD Comptroller establish by fiscal year 1971 a functional category entitled "Food Service." His request included the following justification:

> "A functional category for food service is necessary to provide better visibility which will result in improved management of this program. This visibility is needed to take full advantage of technological improvements in food service. Specifically, we need a basis for economic evaluation of the advantages of buying raw food versus buying prepared foods which require little labor. Under the present conditions the absence of accurate data reflecting the costs of preparing and serving food precludes the possibility of buying the higher priced prepared products which may in fact be more economical * * *. In addition, it has been determined that food service is a function which in many cases can be turned over to a contract operation in lieu of using military personnel. Again, a sound economic evaluation of the two methods of operation is precluded by the lack of accurate cost data. The future of military feeding depends in part on our ability to capitalize on commercial improvements which provide an equal or better product with a lower expenditure of total resources.* * *"

In March 1970, the DOD Deputy Comptroller asked the military services for comments on establishing a functional category for food services. Generally, military service officials said that it was impractical because overall mission-oriented funds and certain indirect operations and maintenance funds were not segregated and could not be captured for food service from the current cost accounting system.

Although the DOD Comptroller, assisted by the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics), has been assigned the responsibility, a uniform accounting and reporting system for the DOD Food Service Program has not been established. The Defense Logistics Agency (DLA) was assigned to assist the DOD Comptroller in November 1976. DLA's cooperation with the DOD Comptroller in developing a uniform cost accounting system for determining total cost for the food service function was classified as essential. At the time of our review, DLA's efforts had been limited primarily to gathering information on existing systems and to developing a system on food quality and acceptability. According to DLA officials, their efforts have been hampered by a lack of cooperation from other DOD components.

To illustrate the inadequacy of cost data on the DOD Food Service Program, we attempted to determine whether it was feasible and practicable for DOD to expand the use of contracting out to include all elements of its food program. For example, it may be more economical and efficient for an installation to have all of its food service needs, including the procurement of food items, met by a single commercial supplier. Officials of one major civilian firm told us that they could be very competitive with the military on a total cost per meal basis. However, since DOD does not accumulate total food program costs, including the total cost per meal and the daily cost per person, we could not, without an extensive effort, determine whether DOD should contract out total food services.

We believe that one major reason that total cost data is needed on the DOD Food Service Program is because a significant part of food services are contracted out to private firms. For example, Office of Management and Budget Circular A-76 data provided DOD by the military services for fiscal year 1979 indicated that of estimated food service labor, supplies, and materials costs of about $361.5 million, about 35.7 percent, is contracted out. The Air Force has the highest percentage contracted out--about 53.3 percent.

Contract costs and performance reporting and management analysis are inadequate

Although over one-third of an estimated $361.5 million for selected food services in DOD were contracted out in fiscal year 1979, the contract cost and performance data reported to DOD and military services for review and management analysis were

inadequate. Food service contract costs and contractor performance data were not routinely submitted to DOD and the military services. As a result, cost comparisons between contracts were seldom made. In addition, contractor performance data on food service contracts were not available at a central point for use by contracting officers in awarding contracts.

CONCLUSIONS

The DOD Food Service Program lacks effective top-level management. There is inadequate program visibility and direction at DOD and the military departments. Food service management is left primarily to the military services and, in essence, to their installation commanders under the guidance and direction of their major commands. This has permitted a lack of program uniformity which precludes meaningful management evaluations. Food service program funds and expenditures are not segregated and accumulated. Thus, total program costs, cost per meal, and daily cost per person, are not available for management and oversight.

RECOMMENDATIONS

To provide adequate visibility and uniform management of food service functions within DOD, we recommend that the Secretary of Defense:

--Establish a functional budget and accounting category entitled "Food Service" within DOD and the military services for segregating and accumulating total costs for the DOD Food Service Program.

--Develop and implement a management information system for the DOD Food Service Program that would include program costs, contract costs, and performance data.

DOD COMMENTS AND OUR EVALUATION

DOD concurred with our recommendation to establish a functional budget and accounting category for segregating and accumulating total costs for the DOD Food Service Program. It also concurred with our recommendation to place a high priority on the development and implementation of a management information system for the DOD Food Service Program that would include overall program costs as well as contract cost and performance data. DOD said that corrective actions were being initiated on these two recommendations and that this report would stimulate improved food service management by the military services.

DOD did not concur with our proposed recommendation that the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) be provided authority and resources to issue uniform food service policy directives, and also to see to it that those directives are effectively carried out. DOD believes the

Assistant Secretary presently has full authority and sufficient resources.

In view of DOD's concurrence in our recommendation on establishing a food service functional budget and accounting category as well as a management information system and other actions taken to standardize and improve food service contracting and management and control of subsistence, we have deleted the recommendation for more authority and resources at the Assistant Secretary level.

DOD did not concur with our proposal that the Congress establish a separate new appropriation--"Food Service, Defense." In its view, the DOD accounting system, through a uniform chart of accounts now being developed, will accumulate food service costs without regard to financing sources. DOD believes this would negate the need to establish a separate appropriation for any single program. For the long term, DOD thinks this approach appears to be a better way of compiling total program costs or general financial management data for food service management purposes. It believes a separate appropriation will be limited to the control of funds rather than the control of total costs. Furthermore, a separate appropriation would require the extra effort of a reimbursable program in many supporting appropriations. Moreover, DOD believes a separate appropriation would greatly diminish management flexibility because it could not reprogram funds for food service without congressional approval.

The Office of Management and Budget also commented on a draft on this report (see app. VII), and essentially agreed with DOD that a new appropriation for food service would not be helpful.

We made the proposal to establish a new appropriation, "Food Service, Defense," to give the Congress visibility over a program which is vital to the morale of the all volunteer force and which by all estimates far exceeds $1 billion annually. We believe such oversight is necessary so that the Congress (1) will know what it costs to put a meal on the table, (2) can be assured that moneys appropriated for feeding the troops are used specifically for that purpose, and (3) will have the opportunity to approve any reprogramming actions. In view of DOD's and the Office of Management and Budget's concerns and the promised visibility that will result from the new chart of accounts being developed, we have deleted our proposal for a separate new appropriation, "Food Service, Defense."

GREATER UNIFORMITY NEEDED TO IMPROVE MANAGEMENT OF FOOD SERVICE CONTRACTS

Differences exist in food service contracts between military services, commands, and installations. Specifically:

--There are differences in the types of services and tasks.

--A standard unit of measure is not being used.

--Meal volume adjustment factors are inadequate and lack uniformity.

We believe standard contract formats with a common unit of measure would enable the Government to more effectively manage food service contracting.

DIFFERENCES IN TYPES OF SERVICE AND EXTENT OF CONTRACTING PRECLUDED COMPARATIVE COST ANALYSIS

Differences in the types of food services and the extent to which they were contracted precluded us from making meaningful contract cost comparisons to determine the reasonableness of contract prices. Our review of fiscal years 1978, 1979, and 1980 contracts at 17 military installations--5 Air Force and 4 Army full food service (preparation of Government-furnished food and dining facility attendant services) and 2 Air Force, 2 Army, and 4 Navy dining facility attendant services--disclosed that the types of services and the extent to which they were contracted differed between military services, commands, and installations. Consequently, the contract costs per meal served at the 17 installations varied significantly.

The estimated cost per meal for the 9 Air Force and Army full food service contracts differed significantly, ranging from $0.34 to $1.45, with a median price of $1.04. Similarly, the estimated cost per meal for the 8 dining facility attendant contracts ranged from $0.28 to $1.23, with a median price of $0.50.

There were also differences in the dining facilities, the number to be fed, and geographical labor rates. However, we believe the major reason for the wide variances in costs per meal was due to differences in the types of services contracted.

Our review of all 17 contracts (7 Air Force, 6 Army, and 4 Navy) disclosed differences in the provisions for contractor-furnished vehicles and cleaning supplies and equipment, cashier

services, driver service, loading and unloading food supplies, transporting food supplies, serving food, clearing tables, preparing short order meals, and grounds maintenance. The following are specific examples of these differences:

--Five Air Force contracts provided for contractor-furnished vehicles.

--Seven Air Force and one Army contract provided for cleaning supplies and equipment.

--Seven Air Force and three Army contracts provided for cashier services.

--Five of the Air Force contracts provided for contractor drivers.

--All of the contracts except one Army contract provided for contractor personnel to serve food.

Omission or inclusion of services such as those shown above can significantly affect the overall contract price and is a major reason for the variances in cost per meal. For example, the cost to require the contractor to clear tables at one Air Force dining facility increased the cost per meal from $0.85 to $1.03, or a 21-percent increase. In addition, the extent to which these services are contracted can increase or decrease the contract cost per meal served. For example, although 16 of 17 contracts required the contractor to serve food, 6 contracts specified that these duties would be shared in varying degrees with Government personnel. Thus, the contract cost for serving food could vary significantly depending on the extent to which these services are contracted.

STANDARD UNIT OF MEASURE IS NOT BEING USED

A standard DOD unit of measure, such as the meal, compatible with other food program costs, has not been established for soliciting and evaluating bids and paying contractors. Except for two Air Force bases which used the meal, the contracts we reviewed used a period of time--day, semimonthly, and monthly--as a unit of measure. Because there was no common unit of measure, meaningful cost comparison of estimated and actual contract unit costs could not be made. The lack of a common unit of measure also impedes evaluating contractors' bids and proposals.

Units of measure based on periods of time were not comparable between contracts. For example, in selected contracts we reviewed at 17 installations, daily rates ranged from $34 to $2,252, semi-monthly rates ranged from $3,869 to $8,037,

and monthly rates ranged from $18,978 to $456,421. The use of a common unit of measure, such as the meal, would also disclose trends in contract costs which could be used in exercising options and evaluating bids.

MEAL VOLUME ADJUSTMENT FACTORS ARE INADEQUATE AND LACK UNIFORMITY

The number of meals to be served affects the time required to perform specific tasks. The provisions in food service contracts for adjusting estimated contract costs for the volume differences between estimated and actual meals served were not uniform and some were inadequate. Generally, the provisions were unrealistic, permitted inaccurate meal estimates, and resulted in only small adjustments in contractor payments.

The meal volume adjustment formulas in the Navy, Air Force, and Army contracts were different. Navy contracts allowed a 25-percent variance between estimated and actual meals before a negotiated adjustment was required in estimated contract costs. Variances allowed by Air Force contracts before adjustment ranged from 4 to 20 percent. Air Force contracts contained at least three adjustment methods: (1) negotiated adjustments in contract amounts where the allowed variance was exceeded, (2) specific adjustments within specific percentages with negotiated adjustments outside the percentages, and (3) specific adjustments within specific percentages. For five of the six Army contracts we reviewed, the allowed variances before adjustments ranged from 3 to 15 percent. The cost for meals exceeding the allowed variances ranged from zero to $0.27 based on contractor bids. The other Army contract provided for negotiated adjustments only if the number of meals served semimonthly exceeded a maximum of 17,500 at two facilities and 20,000 at the other facility.

To illustrate the differing effects volume adjustment formulas have on contract costs, we compared the formulas for the Corpus Christi Naval Air Station, Fort Benning, and Kelly Air Force Base contracts. We used Corpus Christi's estimated cost of $251,229 for an estimated 451,500 meals, or about $0.56 per meal as the measurement standard. The Corpus Christi contract allowed a 25-percent variance before an adjustment was required. The Fort Benning contract specified that the price per meal would be adjusted by $0.01 for each meal served that differed from contract estimates by more than 3 percent. The Kelly Air Force Base contract provided a range of volume variances from 70 to 130 percent of contract estimates, with variances over 30 percent to be negotiated. Our analysis showed that Kelly and Fort Benning formulas would have reduced the Corpus Christi contract costs about 10 percent and less than

1 percent, respectively. However, the Navy chose not to exercise this contract provision.

We believe meal adjustment formulas should provide for equitable and realistic adjustments to estimated contract costs for variances in the estimated and actual meals served. However, because many of the contracts we reviewed provided for large variances and/or small per meal adjustment rates, adjustments in estimated contract costs (only 0.4 percent of $24 million) were not significant, even though estimated and actual meals served varied significantly. We believe this also contributes to a general laxity in the preparation of Government monthly estimates.

IMPROVEMENTS NEEDED TO ASSURE SATISFACTORY CONTRACTOR PERFORMANCE

The methods for inspecting and measuring contractor performance in military dining facilities are of limited effectiveness. Specifically:

--Food service contracts do not contain specific, measurable standards, tolerances allowed, and deduction rates for unacceptable performance.

--Inspection methods and the criteria used are inadequate.

--Inspection frequencies vary and inspections are inadequately documented.

--Inspectors are inadequately trained in contract administration.

As a result, the military is left with the options of accepting marginal or unacceptable performance, performing some of the work with military personnel, or terminating contracts.

CONTRACTS DO NOT INCLUDE MEASURABLE STANDARDS AND DEDUCTION RATES FOR UNACCEPTABLE PERFORMANCE

Although the Air Force was testing contracts with measurable performance standards, employing statistical sampling techniques, food service contracts we reviewed generally did not contain specific measurable criteria for determining unacceptable performance. In addition, the contracts did not provide specific methods and rates for deductions from contractor payments for unacceptable performance.

Food service contracts described the functions the contractor was to perform and provided detailed instructions on the functions to be performed. Performance standards were often stated in general terms. As a result, assessing performance was largely a matter of judgment. For example, the September 1978 Fort Benning contract required contractor employees to immediately clean spillage of trash, food, and drinks from the serving line areas. However, the time allowed for the spillage to be cleaned up was not specified. In contrast, a Maxwell Air Force Base contract testing measurable performance standards, specified 2 minutes for completing the task, allowed a 10-percent deviation, and provided for a 1-percent reduction in the contract price for unacceptable performance of the task. Even in those few instances where task frequencies were specified, the contracts did not include deduction rates for unacceptable

performance. For example, the September 1978 Mather Air Force Base contract, under sanitation, required that dishwashing and pots and pans machines be cleaned as required to keep them free of grease accumulation, but not less than twice weekly. However, the contract did not specify the rate of deduction for unacceptable performance.

INSPECTION CRITERIA AND METHODS ARE INADEQUATE

In addition to a lack of measurable criteria for assessing contractors' performance, the contract provisions and methods for performing inspections of dining facilities were inadequate. Inspections consisted primarily of completing checklists and logs containing inadequate criteria for determining unacceptable performance. Therefore, inspection results were judgmental in nature and of limited effectiveness.

Although Navy contracts provided standard inspection rating forms for both food service operations and sanitation, they did not spell out detailed evaluation criteria for assessing performance. For example, the Navy rating form for food service operations included a numerical scoring system, but provided no specific criteria for awarding points. Points were deducted for categories in which deficiencies were noted and an aggregate score of 85 percent or less was considered unsatisfactory. The rating categories were, however, general descriptions of desirable service standards rather than observable characteristics that could be readily measured.

As a result, similar situations were rated differently. For example, in the Navy contracts, clearing dirty dishes from the dining tables was a contractor responsibility, but the system did not include this as a rating category. At Corpus Christi, several Navy inspection reports identified lack of personnel to clear tables as a deficiency. In one inspection report, points were deducted in the category "adequate number of employees;" in another, points were deducted in the category "adequate supervision throughout mess operations;" and in a third report, points were deducted in both categories.

The Navy sanitation rating criteria were even less clear. The sanitation rating forms were merely lists of items to be checked during inspections. No scoring system was set forth in the Corpus Christi contract or on the rating form, and ratings were largely subjective. For example, the results of two sanitation inspections of the dishwashing area at Corpus Christi were as follows:

July 2, 1979 inspection	July 11, 1979 inspection
Rating: Unsatisfactory	Rating: Satisfactory
Findings:	Findings:
Door dirty	Door dirty
Dirty carts	One dirty cart
Dirty dishes in sink	Gear adrift in sink
Deck needs scrubbing	Deck and bulkheads need scrubbing
Space not properly cleaned	Improperly stowed closet
	Machine improperly cleaned
	Outside machine needs shining
	Vacuum cleaner hose improperly stowed
	Screen missing

Food service officials could not explain these apparently inconsistent ratings.

Unlike the Navy, Army and Air Force contracts did not include standard inspection and rating forms. Some contracts merely contained, or referred to, inspection logs or checklists. Like the Navy contracts, neither the contract provisions nor inspection forms contained adequate criteria for identifying unacceptable performance and related tolerances and rates for deductions from contractor payments.

Air Force contracts usually required that a daily log be maintained on contractor performance, indicating deficiencies and contractor corrective actions. Although not always defined in the contract, inspection checklists were to be prepared to support the logs. These checklists listed functions from the scope of work to be marked in various ways, such as "satisfactory" or "unsatisfactory." However, there were no standard criteria for defining what was unacceptable to the Air Force nor for determining an overall rating for inspections.

Army food service contracts generally identified an inspection checklist consisting primarily of functions listed in the contract scope of work. Each function was to be checked as satisfactory or unsatisfactory. However, the inspection format was not standardized, and like the Navy and Air Force, Army inspection provisions and checklists did not adequately define the service standard the Army would accept or the criteria for assigning an overall rating.

FREQUENCY AND DOCUMENTATION OF INSPECTIONS NEED INCREASED ATTENTION

The frequency of inspections varied between military installations and in many instances inspection results were either not documented or inadequately documented. In our opinion, the failure to document performance deficiencies could preclude the Government from making deductions for unacceptable work, terminating contracts, and rejecting bids from contractors with unacceptable past performance records.

Navy

Navy contracts required unannounced inspections. While the contracts required weekly sanitation inspections, they were silent on the frequency of food service inspections. If unsatisfactory ratings were assigned for four consecutive or any five inspections, the contract could be terminated.

At three Navy installations--Orlando Naval Training Center, Norfolk Naval Station, and Pensacola Naval Air Station--inspections documented in selected months in 1979 subjectively rated the contractor's performance as satisfactory. At Orlando, inspections were not documented during the first 3 months of the contract we reviewed. In addition, our observations of dining facilities and review of inspection reports in March 1979 showed some deficiencies were not recorded. For example, on March 13, 1979, we observed Navy cooks performing contractor serving line duties. However, this was not noted on the inspection report. At Norfolk, weekly inspections for the last 3 months in 1979 showed very few unsatisfactory remarks. According to Navy officials, the contractor was allowed to correct any deficiencies on the spot. At Norfolk, we noted that the contractor's shift supervisor was the spouse of the Assistant Food Service Officer, who has since retired. At Pensacola, a sample of 24 food service inspections in 1979 rated the contractor's performance from 104 to a perfect score of 118. Conversely, a sample of 46 sanitation inspections for the same contractor and the same period showed as many as 17 of 42, or 40 percent of the sanitation items rated unsatisfactory. However, food service officials considered the contractor's overall performance to be satisfactory and no deductions were made.

At the fourth Navy installation (Corpus Christi), the Navy had experienced a history of poor contractor performance. Documented inspections were available for about 61 percent of the days in March 1979 with no unacceptable scores recorded. In actuality, however, the contractor had consistently provided an inadequate staff and supervision. As a result, Navy personnel, including inspectors, were doing much of the supervision and directly instructed contractor personnel to correct deficiencies.

Because the contractor's performance was deteriorating rapidly, Navy inspectors began documenting the inadequacy of staffing levels.

With a new contractor at Corpus Christi, Navy inspectors in July 1979 documented food service ratings on all but about 6 percent of the meals served. Over 90 percent of the inspection reports identified deficiencies. The evaluations indicated that the contractor was scrimping on staff and providing inferior service. Service was rated unacceptable for about 13 percent of the meals evaluated. For about 41 percent of the meals, the rater concluded that the contractor provided insufficient staff. Furthermore, the rater concluded that contractor supervision was not provided for 56 percent of the meals.

Air Force

Our review of inspections for selected months in 1979 at five Air Force bases showed that documentation of inspections varied between installations. Daily inspection logs were usually maintained but some installations did not keep the supporting detailed inspection checklists.

At Patrick and McDill Air Force Bases, daily inspection checklists were destroyed once deficiencies were recorded on inspection logs. Patrick daily inspection logs for February and July 1979 were marked satisfactory. Air Force monitors followed the practice of bringing deficiencies to the contractor's attention for correction and assigning a satisfactory rating. Patrick Air Force monitors said they did not strictly enforce the contract performance provisions because of the contractor's low bid and their concern that he might default under a critical evaluation of performance. At McDill inspection logs were marked "No Discrepancies" until January 1979, when the contracting officer advised that it was unacceptable. Subsequent inspection logs contained a short list of discrepancies shown as corrected. We observed that some deficiencies were recurring.

At Kelly Air Force Base, inspection checklists retained for about 1 year identified few deficiencies. For example, in February and August 1979, 28 deficiencies were recorded for a total of 37 inspections, including recurring indications of unclean equipment and floors. At Lackland Air Force Base, inconsistencies existed in the frequency of inspections. For example, the July 1979 inspection reports indicated some categories of services were not inspected from 10 to 14 days. Therefore, some deficiencies could have existed for a number of days. For example, a refrigerator temperature chart had not been filled out for over 2 weeks.

Inspection efforts at Mather Air Force Base identified numerous contractor performance deficiencies. For example, from September 1978 through September 1979, inspections showed over 2,500 deficiencies, 30 percent relating to food preparation and 50 percent to sanitation. Even though numerous deficiencies were identified, we noted that from September 1978 through November 1979, only $34 was deducted for unacceptable performance from contractor payments of over $1 million.

Army

The procedures and documentation of dining facility inspections at six Army installations included in our review were generally inadequate. For example, monitors at Redstone Arsenal had not documented inspections until October 1979, when we started the review. At Fort Knox, only four inspections were documented for one facility for a 42-day period from December 1979 through January 1980. In addition, only 6 of 31 facilities with dining facility attendant services routinely documented inspections. Also, inspection reports were often not submitted to the responsible office.

During February and July 1979 documented inspections for each facility at Fort Leonard Wood averaged about four each month. Of a total of 118 inspection reports, about 37 percent identified performance deficiencies. However, no deductions were made from contractor payments. At Fort McClellan, only about 22 percent of the February and July 1979 daily inspections were documented, no documentation was prepared for three dining facilities. Furthermore, inspection reports prepared during our visit to selected dining facilities were inadequate. For example, we observed substantial leftovers at one facility on February 6, 1979. This was not noted even though it was required by the inspection form.

In January 1980 Fort Eustis internal auditors reported that dining facility management had neither identified nor corrected recurring deficiencies noted during inspections. Although the contractor's performance at Fort Eustis was considered unsatisfactory for the contract awarded in August 1978, the contractor was awarded the contract for the next year effective October 1979. Contractor performance continued to be unsatisfactory, but the contracting officer did not terminate the contract because of a lack of documentation. In an attempt to improve the services, the contracting officer negotiated a $17,000 modification to the contract, giving the contractor additional hours each day for work already provided for in the contract price. Eventually the contract was partially terminated in December 1979 and totally terminated in February 1980. As of March 1980 Fort Eustis had paid the terminated contractor $747,171 and contractor claims for about $1.4 million had been appealed to

APPENDIX II

the Defense Contract Board of Appeals. Our review of inspections for February and March 1980 indicated that inspection documentation had improved.

INADEQUATE CRITERIA, RATES, AND INSPECTIONS PRECLUDE DEDUCTIONS FOR UNACCEPTABLE PERFORMANCE

Even when inspections disclosed numerous deficiencies, such as those reported at Corpus Christi, Mather Air Force Base, and Fort Eustis, deductions were seldom made. (See pp. 33 to 34.) For example, our review of payments totaling about $23.9 million for 1978 and 1979 to contractors at 15 military installations showed that only $2,090 was deducted for unacceptable performance. In our opinion, the primary reasons deductions were not made were due to (1) the lack of measurable performance standards and deduction rates for unacceptable performance and (2) inadequately documented inspections.

INSPECTORS INADEQUATELY TRAINED

Personnel assigned to inspect contractors' performance at the installations we visited were food service officials or personnel with extensive experience and training in food services. However, our discussions with officials at 10 of the installations disclosed that the monitors generally had little or no experience and training in contracts and contract administration. In many instances the monitors were not familiar with the contract provisions.

IMPROVEMENTS NEEDED IN ESTIMATING REQUIREMENTS AND EVALUATING CONTRACTOR CAPABILITIES

In many instances, Government estimates of meals on which contractor bids and proposals were based were inaccurate and Government performance evaluations were inadequate. As a result, contractors may have submitted unrealistic bids and proposals. Also, in the absence of effective evaluations, the Government had little assurance that contractors could meet performance requirements.

BETTER MEAL ESTIMATES ARE NEEDED

In many instances, monthly estimates of the number of meals for contracts we reviewed at 15 installations varied significantly from the actual number of meals served by the contractors. Since contractor bids are based in part on the estimated meals to be served, meal estimates need to be as realistic as possible or obviously contractors will not be able to submit responsible bids and proposals.

Except for Corpus Christi Naval Air Station, monthly meal estimates in Navy contracts we reviewed had not been revised to accurately reflect recent experience as required by Navy instructions. At Pensacola and Orlando, monthly estimates remained the same from contract to contract, primarily with the contractor serving far less meals than expected. For example, during a 5-month period in fiscal years 1977 and 1979, the actual number of meals served at Pensacola were consistently fewer than monthly estimates--from 1 to 24 percent. Since estimated meals did not vary from actual meals by more than 25 percent, no adjustments were required in contract payments. Conversely, at Norfolk Naval Station, a 60,000 meal estimate was exceeded 15 of 17 months during the period November 1977 through March 1979. As a result, the contractor was paid an additional $19,044 for exceeding the 25 percent meal volume adjustment factor for 4 months. Also, the contractor received an indeterminable amount for variations in estimated and actual meals as part of a $135,000 contract claim settlement. In the April 1979 contract, the Navy revised the monthly estimate from 60,000 to 92,000 meals. However, based on pass experience, a more realistic estimate would have been about 80,000 meals.

Although some revisions had been made at some Air Force installations, our review of contracts at six installations showed that actual meals served also varied, significantly in some instances, from contract estimates. For example, meal estimates for Kelly Air Force Base in 1978 ranged from 15 to 39 percent

less than actual meals served. Based on the meal volume adjustment formula, the contractor was paid $75,854, or about 14 percent more than expected for this contract. Estimates of meals in Kelly contracts were recently changed, improving the degree of estimating accuracy. Conversely, although changes in meal estimates were made at Maxwell, significant variances between estimated and actual meals served continued to exist. For example, during the contract period ended March 31, 1980, actual meals served each month were short of estimates from 10 to 23 percent, resulting in the need for negotiated settlements in about half of the months. For example, in June 1979, actual meals served were 10,716 fewer than the estimated 52,632 meals. While the negotiated settlements increased the cost per meal, the contractor actually received $10,526, or 13 percent less than expected based on estimated meals. The contractor claimed that poor meal estimates were causing him to lose money and believed the contract should have been renegotiated.

We also found significant variances in estimated and actual meals at some Army installations. However, even though actual meals served in many months varied significantly from contract estimates, adjustments in Army contract costs for the volume variances were immaterial. The following are examples of estimating variances at two installations.

--At Fort Eustis, for the dining facility attendant contract for the 12-month period ended July 31, 1979, estimated meals of 1,879,161 exceeded actual meals served by 257,107, or about 14 percent. However, the adjustment of $1,519 amounted to less than .03 percent of estimated contract costs.

--At Fort Knox for the 12-month full food service contract period ended June 30, 1979, the monthly variance in estimated and actual meals served ranged from 3.9 to 38.7 percent. Even though estimated meals were overstated by about 15 percent, or 159,512 meals for the period, a net deduction of only $519 was made in contract costs (the equivalent of .06 percent of estimated cost).

EVALUATION OF BIDDERS' ABILITY TO PERFORM CONTRACT REQUIREMENTS WERE INADEQUATE

Several food service contracts were awarded based on inadequate preaward surveys to determine the contractor's ability to perform the required services. Navy contracting officers generally accepted the lowest bid without a detailed evaluation of the contractors' proposed staffing plan for performing the contract. In addition, Army, Navy, and Air Force determinations of contractors' abilities to meet contract requirements were

generally based on verbal input from other installations. As a result, contracts were awarded to some contractors that could not meet contract requirements.

The Navy has awarded dining facility attendant services contracts to contractors who could not meet performance requirements. Yet, despite this history of problems in dining facility attendant services contracts, the Navy's bid evaluations do not always include a preaward survey on all prospective contractors. Instead, indicated successful performance on another contract is taken as sufficient evidence of contractor responsibility.

The Corpus Christi Naval Air Station fiscal year 1979 contract is an example where no preaward survey or detailed analysis of proposed staffing was performed. The labor hours of service proposed by the contractor was over 60 percent short of the Navy's estimate of requirements. While the wide divergence in proposed labor hours was noted, the contractor's indicated satisfactory performance on a contract at Charleston Naval Base was accepted as evidence that the contractor could perform at Corpus Christi. Efforts to reconcile the wide divergence were limited to a request that the contractor verify the accuracy of the bid amount.

Our analysis of the Corpus Christi contractor's proposed staffing disclosed some obvious omissions in the proposal. The contract specifications clearly provided that two serving lines would operate during weekday lunches, which the contractor proposed only one employee to serve food during half of the lunch period. The contract required that the serving lines be kept continuously clean of spilled foods during meal periods, but the contractor's proposal provided for staff to clean the serving lines after the close of the meal period. The contract provided for a midnight meal served from 11:00 p.m. to 12:30 a.m., but the contractor's proposal reflected no staff on duty during this period.

At Corpus Christi the contractor, a small business enterprise, had increased staffing levels to 47 percent above its proposal, which was still 45 percent less than the Government's estimate. During some periods the contractor had losses on labor costs alone, before considering managerial salaries or general and administrative expenses.

The Navy's acceptance of an unreasonably low bid on the Corpus Christi contract was damaging to both parties. As noted above, the contractor was suffering the financial drain of an unprofitable contract, and the Navy received poor quality service due to the contractor's short-handed staffing. At the same time, the contractor was burdening the purchasing office with

the task of evaluating and negotiating claims for increased payments which could raise the cost of the contract.

A Navy analysis of 16 dining facility attendant contracts resolicited and awarded in 1979 by the Navy Regional Contracting Office, Charleston, South Carolina, disclosed that 2 contracts had been terminated, 1 was on the verge of termination, and 11 had experienced performance problems or claims. For these 16 contracts, the contractors estimated labor hours averaged about 40 percent less than the Government's estimates. For seven of the contracts, the monthly amount due to contractors was not enough to cover monthly labor costs, not considering a factor for overhead and profit.

Because of past problems with dining facility attendant contracts, the Navy was experimenting with a fixed price with an award fee type contract. The Navy believes this type of contract should encourage and reward contractors for quality performance. (See p. 42.)

There was no formal system within DOD for reporting and disseminating to other installations the level of performance achieved by food service contractors. Therefore, when assessing contractors' ability to perform, contracting officials generally relied on verbal input from other installations doing business with those contractors. Therefore, performance inspections were judgmental in nature and inadequately documented. More importantly, in many instances, performance documentation was not placed in the contracting officers' files.

DOD AND MILITARY SERVICE EFFORTS TO STUDY AND STANDARDIZE FOOD SERVICE CONTRACTS

Related to implementing the March 1979 revision of the Office of Management and Budget (OMB) Circular A-76 on contracting out base support services, DOD and the military services have established groups to study the need for standardization of service contracts and the development of measurable performance standards. As a result, some new contract methods are being developed and tested. We believe this is a step in the right direction. However, we believe a more coordinated effort with stronger top-level management support is needed to assure the development of standard DOD food service contracts with standard services, units of measure, measurable performance criteria, formulas for deduction rates for unacceptable performance, and inspection provisions with adequate documentation.

In April 1979, the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics) established an ad hoc DOD service contract group to review and identify, or if necessary, develop service contract work statements for use by all military services that would measure contractors' performance. The Assistant Secretary stated that performance standards should be written into contract work statements to provide a good basis for preparing both contractor bids and in-house cost estimates and for measuring performance. He also referred to increasing pressure from service contractor groups to bring more standardization into the way requirements are defined within the services and between the services.

Although the ad hoc group has made progress in developing performance oriented food service contract work statements, its progress has been hampered by (1) differences between the military services on the best methods for obtaining acceptable performance, (2) a lack of knowledgeable personnel on a continuous basis, and (3) resistance by the military services, commands, and potential users. In addition, the group has not required the development of food service contracts with standard types of services and units of measure compatible with other food service functions and for use within and between the services.

The following paragraphs describe the status of Air Force, Army, and Navy studies, tests, and experiments at the time of our review to assure the required performance on food service contracts.

The Air Force was testing a new method for assuring contractor performance on four full food service and four dining

facility attendant contracts. The method, described in Air Force Regulation 400-28, uses statistical sampling techniques and measurable performance standards in deducting amounts for services falling below an acceptable quality level. We believe the method is a step in the right direction; however, the system needs improvements and testing by the other military services.

The Air Force initiated tests of the new method on the Maxwell Air Force Base March 1979 full food service contract. The contract included measurable performance standards, the tolerances allowed, the methods of surveillance, and the rate of deduction for less than acceptable performance. For example, if Air Force quality assurance evaluators, through scheduled random sampling checks, showed contractor personnel did not keep tables cleared within 2 minutes after customer use at least 90 percent of the time, 2 percent of the contractor's monthly payment times the percent of the sample defective could be deducted.

Maxwell officials had identified several contract weaknesses and had experienced some difficulties in implementing the new method, including:

--The contract's failure to require completion and retention of control documents, such as cooks' worksheets.

--The contract's restrictions on performing complete inventory verifications monthly.

--The contract's limitation on the number and length of inspections during meals.

--Communications problems between quality assurance evaluators, contract administrators, and the Air Force service contract group administering the test.

--Confusion by quality assurance evaluators and contract administrators on how to make deductions for unacceptable performance.

--The lack of trained quality assurance evaluators.

For example, random sampling failed to identify significant inventory shortages. Based on information from some disgruntled employees, Maxwell Food Service officials performed complete inventory verifications on June 18 and 30, 1979, and identified shortages of $1,906 and $1,029, respectively. The Air Force contract study group was aware of many of the weaknesses and were considering methods to correct them.

There were also indications that the new method has resulted in increased costs in the Maxwell contract. For

example, an additional $3,233 was allowed in negotiations for the increased quality assurance requirements. According to the contractor, he had not proposed enough hours to perform all work required because no previous deductions were made and he felt he could perform less than what the contract required. Also, increased risk to the contractor under the new method was considered by Air Force negotiators in allowing the contractor a higher profit rate.

At our May 29, 1981, meeting, Air Force representatives said that most of the contract problems at Maxwell Air Force Base have been corrected.

The Army, through its Natick Research and Development Command, was developing a performance-oriented work specification for its food service contracts. The approach for quantifying services performed below the acceptable quality level and for deducting from contractor payments for unacceptable services was similar to the method being tested by the Air Force. One Natick official commented that realistic deduction rates for individual food service tasks were very critical to the approach, but that time and motion studies were not available on these services.

Because of past contractor performance problems under fixed price dining facility attendant contracts, the Navy was experimenting with a fixed price with award fee type contract method for assuring performance. Contractors bid on a monthly management and support amount with the direct labor hour rate and the maximum allowable direct labor hours for the contract established by the Navy. Based on established factors on the quality of work and cost reduction efforts, the contractor could earn all or part of the award fee. With the maximum allowable hours for the contract fixed by the Navy and the award amount directed heavily toward performance, we believe the method will probably enhance contract performance. However, adequate measurable performance criteria for determining acceptable performance had not been incorporated into the method.

DOD FOOD COST INDEX

Month period:_____ Year:_____

Component	Unit	Quantity per 100	Unit price	Value of component
BACON, Slab, Sliced	pound	a/7.00		
BEEF, Fresh, Carcass or	"			
Boneless (46.24 pounds)	"	68.00		
Grill Steak	"	a/10.17		
Pot Roast	"	a/12.02		
Ground Beef				
(50% bulk, 50% patties)	"	a/24.05		
HAM, Smoked, Boneless	"	a/6.3		
PORK, Boneless				
(50% roasts, 50% chops)	"	a/8.74		
CHICKEN, Cut-Up	"	a/11.54		
FISH FILLET, Flounder	"	a/4.00		
BUTTER (note b)	"	10.00		
CHEESE, Cheddar, Natural	"	3.125		
EGGS, Fresh, In Shell	Dozen	10.00		
APPLES, Fresh, Eating	Pound	17.00		
BANANAS, Fresh	"	5.00		
ORANGES, Fresh	"	18.00		
CABBAGE, Fresh	"	14.75		
CARROTS, Fresh	"	13.00		
CELERY, Fresh	"	12.00		
LETTUCE, Fresh, Head	"	13.00		
ONIONS, Dry	"	15.00		
POTATOES, White, Fresh	"	98.00		
TOMATOES, Fresh	"	13.00		
SHORTENING	"	10.00		
APPLES, Canned	"	5.25		
ASPARAGUS, Canned	"	3.00		
BEANS, Green, Canned	"	8.25		
CHERRIES, Canned	"	4.00		
CORN, Whole Grain, Canned	"	7.50		
JUICE, Orange, Canned	"	1.875		
JUICE, Pineapple, Canned	"	1.875		
JUICE, Tomato, Canned	"	3.75		
PEACHES, Sliced, Canned	"	3.25		
PEARS, Halved, Canned	"	2.25		
PEAS, Green, Canned	"	6.125		
PINEAPPLE, Sliced, Canned	"	4.00		
TOMATOES, Canned	"	14.50		
FLOUR, Wheat	"	37.50		
NOODLE, Egg	"	2.00		
RICE, Parboiled	"	3.00		

Component	Unit	Quantity per 100	Unit price	Value of component
SPAGHETTI	"	3.00		
SUGAR, Granulated	"	31.25		
JAM, Strawberry	"	1.875		
JELLY, Grape	"	1.875		
OIL, Salad	"	2.8875		
CATSUP	"	4.76		
VINEGAR	"	3.1725		
COCOA, Natural	"	3.125		
COFFEE	Pound	9.375		
CEREAL, Cornflakes	"	2.00		
BREAD, White, Plain	"	37.50		
MILK, Whole, Fresh	Pint	200.00		

Subtotal = _____

Condiments & Accessory foods - Add 2% of Subtotal = _____

Grand Total (Value of BDFA for 100 persons) (note c) = _____

Divide by 100 (Value of BDFA) (note c) = _____

a/Equivalent to 13.41 ounces of meat per person.

b/The unit price for the butter component will be the special price established by the DLA. This price represents the sum of 70 percent of the price of surplus donated butter and 30 percent of the price of regular butter. Installations not receiving subsistence support from the DLA will use the price of regular butter.

c/The BDFA computed from the above index may be increased by 25 percent for Thanksgiving Day and Christmas Day.

APPENDIX VI

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON D C 20301

SS
MANPOWER
RESERVE AFFAIRS
AND LOGISTICS

26 JUN 1981

Mr. Donald J. Horan
Director, Procurement, Logistics
and Readiness Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Horan:

This is in response to your letter of May 11, 1981 which transmitted your Draft Report (Code Number 950544) titled, "Department of Defense Food Service Program: Contracting and Management Improvements Needed" (OSD Case #5705).

Comments received from Military Services have been considered in preparation of the enclosed response which addresses each of the recommendations contained in the Draft Report. In addition, comments are provided with respect to the specific content of the Report.

We appreciate the opportunity to comment on this report in draft form.

Sincerely,

James N. Juliana

James N. Juliana
Principal Deputy Assistant
Secretary of Defense
((Manpower, Reserve Affairs, and Logistics))

Enclosure
As stated

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DEPARTMENT OF DEFENSE
RESPONSE TO GAO DRAFT REPORT

"Department of Defense Food Service Program: Contracting and Management Improvements Needed" (Code 950544) (OSD Case #5705)

Recommendation: That the Secretary of Defense see to it that:

- Current DoD efforts in the development and testing of improved food service contract methods produce, for mandatory use by all Military Services, standard DoD food service contracts that provide

  (1) uniform statements of work;

  (2) common units of measure (preferably the meal);

  (3) uniform meal adjustment formulas;

  (4) measurable performance standards;

  (5) inspection provisions requiring adequate documentation; and

  (6) equitable deduction rates for unacceptable contractor performance.

- Adequately documented inspection records supporting contract payments be retained for sufficient periods of time to enable contract administrators and auditors to verify that the Government received services paid for.

- Recent past experience as well as anticipated major personnel changes are considered in preparing the estimates of the number of meals to minimize unrealistic contract bids and proposals, unprogrammed cost increases, and contractor claims and disputes.

- Comprehensive preaward surveys of food service contracts are made in sufficient detail to reveal potential problem areas and to identify marginal past contractor performance.

Reponse:

- Current DoD efforts in the development and testing of improved food service contract methods produce, for mandatory use by all Military Services, standard DoD food service contracts that provide

  (1) uniform statements of work

Concur with the idea that there should be a uniform format for Statements of Work (SOWs); however, a totally identical SOW for all Services is not appropriate. There are sufficient mission differences between the Services and within the Services that require certain flexibilities in requirements, e.g., a training base versus an operational base. However, in general, there is a basic service that is common no matter what the location or mission, and to that extent, it could be standardized.

(2) common units of measure (preferably the meal)

Concur. Common units of measure should be possible, but adjustments must be permitted for local conditions; for example, labor costs in one state (California) must be factored to compare the cost of the same unit of measure in another state (Alabama). Also, some installations can contract only the food service attendant function because military are required in the food preparation function to meet national Defense requirements. DoD also supports the continued use of firm fixed price contracts based on estimated meals with variation in quantity provisions. A price per meal can be derived from this pricing arrangement. While the number of meals served does impact upon the contractor's cost of operation, other factors which impact on the contractor's cost include the hours of operation, the size/age of the facility, equipment, number of food lines, stability of the dining facility population base, and accessibility of other eating facilities. For these reasons the "meal" may not always be the appropriate base for a common unit of measure to price or compare contracts.

(3) uniform meal volume adjustment formulas

Concur. However, when the actual meal volume falls outside of an established range (for example 25%), the adjustment in contract price factors would be dependent upon several factors: whether the hours of operation have been changed; whether the number of serving lines had changed; whether there was full utilization of the facilities; etc. A formula that could account for these typesof changes is not feasible. Changes in price due to meal volume fluctuations outside of the band established by the contract should be negotiated on a case by case basis.

(4) measurable performance standards

Concur.

(5) inspection provisions requiring adequate documentation

Concur. Inspection of Services Clause (DAR 7-1902.4) is required. Standard SOWs now in use at several installations require the contractor to: (1) have an inspection system covering all specified tasks; (2) have a method to identify deficiencies; and (3) maintain a file of inspections and corrective actions taken. The ad hoc DoD Service Contract Group has also endorsed Office of Procurement Policy (OFPP) Pamphlet No. 4, "Procedures for Writing and

Administering Performance Oriented Statements of Work for Service Contracts," which requires a formalized inspection system and consistent and uniform documentation of results of inspection.

(6) equitable deduction rates for unacceptable contractor performance

Concur. Standard SOWs now in use at several installations specify deduction rates based on the labor cost (Service Contract Act Wage Determination) needed to perform the particular task. These deduction rates are contractually binding and are consistent with both OFPP Pamphlet No. 4 and the Inspection of Services Clause.

- Adequately documented inspection records supporting contract payments be retained for sufficient periods of time to enable contract administrators and auditors to verify that the Government received the services paid for.

Concur. Inspection records are now required to be retained to insure adequate audit trail. Contract Discrepancy Reports supporting payment or nonpayment are maintained in the contract administration file.

- Recent past experience as well as anticipated major personnel changes are considered in preparing the estimates of the number of meals to minimize unrealistic contract bids and proposals, unprogrammed cost increases, and contractor claims and disputes.

Concur.

- Comprehensive preaward surveys of food service contracts are made in sufficient detail to reveal potential problem areas and to identify marginal past contractor performance.

Concur.

Recommendation: To improve control of food costs, food inventories, and access to military dining facilities, it is recommended that the Secretary of Defense:

- Require the development and use of a food cost index that accurately reflects the actual items and costs of the food used by Military dining facilities.

- Revise the proposed DoD changes to Title 10 U.S.C., so that in prescribing the components of a uniform military food ration, instead of starting with the value of the old ration, DoD should use current supportable data that reflects present-day

(1) nutritional requirements,

(2) customer preferences,

(3) food utilization patterns, and

(4) economic factors.

- Direct the Army, Air Force, and Navy to strengthen controls over the receipt and disposition of food by military dining facilities. Specifically, Army dining facilities should be required to maintain perpetual food inventory records and Army, Air Force, and Navy dining facilities should be required to use Cooks' Worksheets to account for food issued for preparation and serving.

- Direct the Military Services to reemphasize the importance of enforcing existing procedures and controls to assure that only authorized people eat free meals at dining facilities.

- Place a high priority on the efforts underway to determine the feasibility of developing a computer oriented food accountability and control system for use by military dining facilities, using plastic meal (identification) cards, computer oriented cash registers and item pricing.

Response:

- Require the development and use of a food cost index that accurately reflects the actual items and costs of the food used by military dining facilities.

Concur. The underlying purpose of the DoD proposed changes to Title 10 U.S.C. is to enable the DoD to develop a Food Cost Index (FCI) which reflects current day nutritional requirements, customer preferences, and food utilization factors using cost as a controlling factor. The collection and analysis of military food consumption data is a costly and unwieldy method for developing and maintaining an up-to-date food cost index. Also, actual consumption data does not accurately reflect or satisfy customer preference or nutritional needs. Experience has shown that actual consumption data varies by availability of food items and the lack of ability of the dining facility manager to accurately predict consumer preferences. The computer model which the DoD has developed to implement the proposed changes to Title 10 U.S.C. is based upon more easily collected data which directly reflects changing customer preferences and insures that the index reflects maximum current customer preferences and meets the nutritional requirements established by the Surgeon General.

The model uses a data base which contains the details of several hundred standard DoD recipes served by the Armed Forces. A computer solution provides the most acceptable menu (based on the food preferences of enlisted members and established nutritional standards) that can be designed consistent with the value of the FCI in effect at the time of enactment. The menu is then recapitulated into all the various types and quantities of raw foods needed to feed 100 persons for a 42-day cycle. These food items are then sorted into 31 ingredient food classes such as poultry, coffee, tea, cocoa,

frozen vegetables, fresh fruits, etc. The one or two most used food items in each food class are then selected to represent that class in the FCI. As a result, the FCI will contain 50 to 60 individual food items. The final step is to determine mathematically the quantities of each of these foods in the FCI. This is accomplished by a computation which considers: (1) the total usage (weight) of all the recapitulated foods in each class; (2) the total current DoD cost of these foods in each class; and (3) the relative usage of the two food items selected to represent each class. A modified weighted least squares computation is used to derive these three solutions. The resultant FCI will, therefore, reflect current food preferences, utilization and nutritional factors, and costs rather than the outdated quantities and food items reflected in the current FCI which is based upon the 1933 Navy Ration Law.

- Revise the proposed DoD changes to Title 10 U.S.C., so that in prescribing the components of a uniform military food ration, instead of starting with the value of the old ration, DoD should use current supportable data that reflects present-day (1) nutritional requirements, (2) customer preferences, (3) food utilization patterns, and (4) economic factors.

Concur in part. As indicated by our answer to the previous recommendation, we agree that the new FCI, subject to approval of our proposed changes to Title 10 U.S.C., will reflect present-day nutritional requirements, customer preferences, food utilization patterns, and economic factors. However, it is deemed essential that the resultant FCI equal, but not exceed, the value of the FCI in effect at the time of enactment of our legislative proposal.

The current FCI is designed and intended to establish the dollar value of the daily subsistence entitlement for each enlisted member of the Armed Forces. It is not designed to establish the exact food items or quantities of each item to be fed each enlisted member on a daily basis. It is not at all surprising that the audit findings established that there are variances between the amounts of meats and beverages reflected in the FCI and the amounts and quantities actually being fed in the Service enlisted dining facilities. It was never intended that there be a direct correlation between the FCI quantities and actual consumption. Actual consumption quantities are influenced by the Service menus, recipes, customer preferences and food availability. The specific items and quantities in the current FCI are designed to parallel as closely as possible the items and quantities reflected in the 1933 Navy Ration Law, which is woefully outdated. The Navy Ration Law of 1933 constrains the Services by legislating quantities (ounces) of specific food items or categories such as meat, beverages, fruits, vegetables, and dairy products. The present FCI food items and quantities have been throughly developed to insure that a reasonable selection of foods of varying monetary value can be served to the military and at the same time provide an acceptable level of feeding to represent the enlisted members' subsistence entitlement. The dollar values derived from the present meat and beverage groups offset other groups with low cost items. For example,

dairy products are limited to eggs, butter, and cheese, but ice cream and other popular and higher priced items are actually served in the military dining facilities. In the case of beverages, the 1933 Navy Ration Law prescribes only coffee, cocoa or tea. However, fruit based drinks, and carbonated beverages, which are highly popular and demanded by the troops, are extensively served in our dining facilities. Therefore, the dollar value and quantities of the FCI beverage items, which the draft report finds to be less than specified in the FCI, allow us to serve the beverages that are popular today and were not in extensive use at the time the Navy Ration Law items and quantities were established.

In 1974 the U.S. Army Natick Research and Development Command (NARADCOM) performed an extensive study to determine the adequacy of the level of feeding provided by the FCI. Level of feeding is defined by food purchases and related to recorded attendance (head count). Food service systems of a law enforcement academy, professional football team, state university, merchant marine ship, and an off-shore oil rig crew were selected as being comparable to the DoD feeding environment. The study found the DoD level of feeding to be marginally lower, about 5%, than that of these comparable civilian food service systems. Of interest, it was found that the use of meat, poultry, and fish by DoD was less than the five civilian organizations studied. The study also made a recommendation to increase the DoD level of feeding (dollar value of the FCI). However, the DoD and the Services concluded that the existing level of feeding was satisfactory and a further increase in DoD feeding costs was not necessary. Based upon this study, the FCI that is planned to support the proposed DoD changes to Title 10 U.S.C. was developed as a cost standard model, i.e., the new FCI would use the value of the ration at the time of enactment as the cost parameter within which actual food preferences, nutritional and food utilization pattern data would be optimized. An FCI based solely on troop preferences and nutritional factors would result in increased DoD feeding costs. Although arbitrary reductions could be made to the present value of the daily ration, this would significantly reduce the level of feeding and variety of menus for enlisted members. The result would be increased enlisted diner dissatisfaction and absenteeism at a time when DoD is striving to improve the quality of life and satisfaction of its enlisted members.

In our judgment the value of the present ration is appropriate and is a rational, logical point of departure as the upper limit dollar figure for a new FCI.

- Direct the Army, Air Force, and Navy to strengthen controls over the receipt and disposition of food by military dining facilities. Specifically, Army dining facilities should be required to maintain perpetual food inventory records and Army, Air Force, and Navy dining facilities should be required to use Cooks' Worksheets to account for food issued for preparation and serving.

Concur. DoD policy will be strengthened to more clearly establish the requirement for the Services to establish and maintain perpetual food inventory accounting to include all food issued for preparation and serving, and any

resultant leftovers. This policy will initially be conveyed to the Services by an Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) memorandum and subsequently will be published in a revision to DoD Directive 1338.10, "Department of Defense Food Service Program." The automated food management systems now being designed by the Services will incorporate positive food item inventory control, but may not incorporate the Cooks' Worksheet.

- Direct the Military Services to reemphasize the importance of enforcing existing procedures and controls to assure that only authorized people eat free at dining facilities.

Concur. The Military Services will be directed to initiate positive actions to enforce existing policies and procedures to assure that only authorized personnel eat at Government expense in DoD dining facilities.

- Place a high priority on the efforts underway to determine the feasibility of developing a computer oriented food accountability and control system for use by military dining facilities, using plastic meal (identification) cards, computer oriented cash registers and item pricing.

Concur. By memorandum dated August 4, 1980 the Deputy Assistant Secretary of Defense (Supply, Maintenance and Transportation (DASD(SM&T)) directed the Service Assistant Secretaries to implement an automated head count system that will establish diner eligibility using the Armed Forces plastic Identification (ID) card now being developed by the DASD(Military Personnel Policy). As a minimum, the head count system must establish diner eligibility and record head count and dollar sales data for input to each Service's dining facility accounting system for summarization, management, audit and reporting purposes. As a longer range follow-on increment, each Service was also tasked to perform feasibility studies to expand the automation of subsistence accounting to incorporate dining facility debit creation, internal dining facility inventory control, production/menu planning, and management information reporting.

The Army was tasked to develop an automated head count system for all Service dining facilities which employ traditional military feeding operations. The Air Force was tasked to develop an automated head count system compatible with the A La Carte (item pricing cafeteria style feeding) systems presently in use or planned by each of the Services. The Assistant Secretaries of the Navy (MRA&L) and (Financial Management) were requested to participate fully with the Army and Air Force in the development of these systems and insure their implementation within the Navy and the Marine Corps.

General implementation plans for these systems have been submitted to, and approved by the DASD(SM&T). Prototype testing of the system being developed by the Army is scheduled to begin in the third quarter FY 84. Field implementation is scheduled to begin in the fourth quarter FY 84 and will be completed by the third quarter FY 86. The computer software programs for the

system being developed by the Air Force are scheduled to be completed by December 1981. A total system test is programmed to be conducted at Pease Air Force Base, New Hampshire, during FY 82. Field implementation is planned to begin in the first quarter FY 84 and will be completed in the fourth quarter FY 86.

Recommendation: To provide adequate visibility and uniform management of food service functions within DoD, it is recommended that the Secretary of Defense:

- Provide the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) with the necessary authority and resources to issue uniform food service policy directives, and also to see to it that those directives are effectively carried out.

- Establish a functional budget and accounting category entitled, "Food Service" within the DoD and the Military Services for segregating and accumulating total costs for the DoD Food Service Program.

- Place a higher priority on the development and implementation of a management information system for the DoD Food Service Program that would include program costs and contract costs and performance data.

Response:

- Provide the Assistant Secretary of Defense, Manpower, Reserve Affairs and Logistics) with the necessary authority and resources to issue uniform food service policy directives, and also to see to it that those directives are effectively carried out.

Nonconcur. It is our judgment that the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) presently has full authority and sufficient resources to issue uniform food service policy directives and ensure that DoD policy guidance is carried out effectively by the Services.

- Establish a functional budget and accounting category entitled, "Food Service" within the DoD and the Military Services for segregating and accumulating total costs for the DoD Food Service Program.

Concur. We support the concept of establishing a budget and accounting category and the accumulation of total costs for the DoD Food Service Program. However, the establishment a separate accounting system for the total cost of a single program is difficult to justify. The DoD recently directed implementation of a uniform chart of accounts for all of its accounting systems. The accounts will contain the accumulated costs incurred (resources used) for all DoD programs, regardless of funding. A complete and controlled DoD accounting will result. Then costs will be assigned to organizations and the programs accomplished. The Food Service Program is only one of many such DoD-wide programs. This process will meet the consistently expressed need for developing full program costs as described in the draft audit report. Total costs of the Food Service Program can and will be used in a management information system and matched with performance data.

- Place a higher priority on the development and implementation of a management information system for the DoD Food Service Program that would include program costs and contract costs and performance data.

Concur. The uniform chart of accounts now in the process of development will provide the framework for both a DoD and Military Service food management information system that will meet the intent of this recommendation. Moreover, the management information segments of the Services' automated food management systems being planned and developed by the Services will serve to further enhance the total management of food service within the Military Services and the DoD.

Recommendation: It is recommended that the Congress establish a new appropriation, Food Service, Defense, similar to the appropriation Family Housing, Defense, in which all costs from all other appropriations would be aggregated for visibility, centralized management and trade-off opportunities.

Response:

We do not concur. The DoD accounting system, through the uniform chart of accounts now under development, will accumulate food service costs without regard to financing sources. This will negate the need to establish a separate appropriation for any single program. For the long term, this approach appears to be the most desirable option for supplying consistent total program costs or general financial management data for food management information systems. A separate appropriation would be limited to control of funds rather than total costs. At the very least, it would require the extra effort of a reimbursable program in many supporting appropriations. Moreover, a separate appropriation would greatly diminish management flexibility since no reprogramming of funds for food service could be accomplished without prior approval by the Congress, thereby adding a further administrative burden.

Additional Comments:

Page 30: "Maxwell officials had identified several contract weaknesses and had experienced some difficulties in implementing the new method, including

- the contract's failure to require completion and retention of control documents such as Cooks' worksheets."

Comment: The food is controlled with a standard cost system that is used in the contract. This system consists of the inventory on hand at the start of the month, plus all purchases from the commissary, minus returns to the commissary for spoilage, etc., minus the inventory on hand at the end of the month. This figure is the subsistence utilized for the month. This figure is compared to earned income, and any deviation over 2% must be paid for by the contractor on a dollar for dollar basis. The contractor may or may not use the Air Force system, i.e., the Cooks' Worksheet, but since that is an internal control system, the contractor may do it any way he wants, as long as he meets the standard.

Other controls to assure that the contractor feeds the troops the proper quantities and items are:

(1) contractor must serve items on menu provided by the Air Force.

(2) all items must be available to all patrons.

"- the contract's restrictions on performing complete inventory verifications monthly"

Comment: The Air Force uses the audit principle of random sampling the inventory to see if a 100% inventory by the government is needed.

"- the contract's limitation on the number and length of inspections during meals"

Comment: A modification has been made to the system that allows the inspector to return as often as the inspector deems necessary during a sampled meal period, or to stay throughout the sampled meal period. Therefore, the restriction on only one look during a sampled meal period has been eliminated.

Page 31:

"- confusion by quality assurance evaluators and contract administrators on how to make deductions for unacceptable performance"

Comment: The procedures on how and when to make deductions for unacceptable performance is clearly spelled out in the quality assurance surveillance plan, in AFR 400-28, and in the contract. The individuals involved simply did not follow the established procedures.

"- The inventories identified shortages of $1906 and $1029."

Comment: Inventory discrepancy problems were corrected about two years ago with a random sampling technique.

"There were also indications that the new method had resulted in increased costs in the Maxwell contract."

Comment: Some of the increases were attributed to increased scope of work such as contractor provided maintenance and a progressive cooking standard. It has been pointed out in an Air Force Inspector General report on contracted food services activities that contractors, based on past experience, have in the past assumed they could get away with performing less than the contract requirements and therefore bid lower. However, under the AFR 400-28 performance standard and deduct approach, the contractor is not paid for nonperformance; therefore, he now has to bid to cover the full requirements. To that extent, the method does result in increased cost, but only in comparison with contracts that were not being properly enforced through the Inspection of Services Clause. When compared to in-house costs, these new contract methods have generally been more cost effective.

Page 32: "Navy officials believed the Air Force's proposed statistical sampling method of deducting the portion of payments for specific contract tasks that do not meet the acceptable quality level may not be legally defensible."

Comment: The Air Force General Counsel has approved the method contained in AFR 400-28 in toto, and the OFPP Counsel has concurred in the Air Force Counsel's opinion. Further, an independent analysis by an Auburn University statistician confirmed the statistical validity of the approach as well as the equity of the deduction procedure. In addition, the procedure is now published in OFPP Pamphlet No. 4, "A Guide for Writing and Administering Performance Oriented Statements of Work for Service Contracts."

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 17 1981

Mr. Donald J. Horan
Director, Procurement, Logistics and
Readiness Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Horan:

Thank you for the opportunity to comment on your draft report, "Department of Defense Food Service Program: Contracting and Management Improvements Needed". I will address my comments to the principal recommendation of the report -- the establishment of a new appropriation for food services in DOD. Although we appreciate some of the concerns expressed in the report, we don't believe a new appropriation would be helpful for the following reasons:

1. The recently directed implementation of a uniform chart of accounts for all DOD programs will provide the desired cost information without a new appropriation.

2. A separate appropriation for "food service" would require the establishment of reimbursable programs in the many supporting appropriations, resulting in additional accounting effort and cost.

3. The establishment of a new appropriation for this one functional area would lead to pressure for additional new appropriations for other functional areas, such as depot maintenance or real property maintenance. Before the present appropriation pattern was established in the mid-1960's, there was a multiplicity of appropriations along functional lines. That system was unsatisfactory and the present system was adopted. We would not support a return to a functional appropriation system.

I hope these comments are of help. If we can be of further assistance, Mr. Matt Conroy (395-4734), of my staff, is knowledgeable on this subject.

Sincerely,

Edwin L. Harper
Deputy Director

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